

Mr. David Culpepper, Senior Reimbursement Analyst  
Paragon Health Network, Inc.  
One Ravinia Drive, Suite 1500  
Atlanta, Georgia 30346

Re: AC# 3-FAI-J5 – GCI Faith Nursing Home, Inc., d/b/a Faith Healthcare Center

Dear Mr. Culpepper:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA  
State Auditor

EAVjr/tdc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Mac Carroll

**GCI FAITH NURSING HOME, INC.,  
D/B/A FAITH HEALTHCARE CENTER**

**FLORENCE, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1996  
AC# 3-FAI-J5**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

## **CONTENTS**

	<b><u>EXHIBIT OR SCHEDULE</u></b>	<b><u>PAGE</u></b>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1996	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1996 THROUGH MARCH 31, 1997	B-1	4
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD APRIL 1, 1997 THROUGH SEPTEMBER 30, 1997	B-2	5
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1995	C	6
ADJUSTMENT REPORT	1	8
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	13

## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 1998

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Faith Nursing Home, Inc., d/b/a Faith Healthcare Center, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Faith Nursing Home, Inc. d/b/a Faith Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Faith Nursing Home, Inc. d/b/a Faith Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
February 27, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA  
State Auditor

**FAITH HEALTHCARE CENTER**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1996  
AC# 3-FAI-J5

	<u>10/01/96- 03/31/97</u>	<u>04/01/97- 09/30/97</u>
Interim reimbursement rate (1)	\$66.90	\$66.90
Adjusted reimbursement rate	<u>64.89</u>	<u>64.89</u>
Decrease in reimbursement rate	\$ <u><u>2.01</u></u>	\$ <u><u>2.01</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

**FAITH HEALTHCARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1996 Through March 31, 1997  
AC# 3-FAI-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.85	\$30.75	\$40.65	\$30.75
Dietary	<u>.60</u>	<u>7.18</u>	<u>8.59</u>	<u>7.18</u>
Subtotal	<u>\$3.45</u>	37.93	49.24	37.93
Laundry/Housekeeping/Maint.	\$1.06	5.50	7.04	5.50
Administration & Med. Rec.	<u>.76</u>	<u>7.79</u>	<u>8.55</u>	<u>7.79</u>
Subtotal	<u>\$1.82</u>	51.22	<u>\$64.83</u>	51.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.12		2.12
Special Services		-		-
Medical Supplies & Oxy.		.77		.77
Taxes and Insurance		1.04		1.04
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$55.15</u>		55.15
Inflation Factor (4.90%)				2.70
Cost of Capital				5.04
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.82
Cost Incentive - For Gen. Serv. & Dietary				3.45
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.52)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$64.89</u>

**FAITH HEALTHCARE CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period April 1, 1997 Through September 30, 1997  
AC# 3-FAI-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.06	\$30.75	\$43.70	\$30.75
Dietary	<u>.60</u>	<u>7.18</u>	<u>8.59</u>	<u>7.18</u>
Subtotal	<u>\$3.66</u>	37.93	52.29	37.93
Laundry/Housekeeping/Maintenance	\$1.06	5.50	7.04	5.50
Administration & Medical Records	<u>.76</u>	<u>7.79</u>	<u>8.55</u>	<u>7.79</u>
Subtotal	<u>\$1.82</u>	51.22	<u>\$67.88</u>	51.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.12		2.12
Special Services		-		-
Medical Supplies & Oxygen		.77		.77
Taxes and Insurance		1.04		1.04
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$55.15</u>		55.15
Inflation Factor (4.90%)				2.70
Cost of Capital				5.04
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.82
Cost Incentive - For General Service & Dietary				3.66
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.73)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$64.89</u>



**FAITH HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Adjustments</u> <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,150,732	\$ 6,755(11) 451(11) 50,686(15) 12,238(17)	\$ 6,071(10) 342(10) 16,177(12) 60,367(16) 5,602(18)	\$1,132,303
Dietary	268,916	915(11) 1,115(14) 52,641(17)	6,441(8) 277(9) 723(10) 51,762(18)	264,384
Laundry	69,814	273(11) 13,666(17)	24,791(2) 203(10) 9,621(18)	49,138
Housekeeping	76,864	24,791(2) 411(11) 12,574(17)	18,954(18)	95,686
Maintenance	57,913	151(11) 9,517(17) 1,381(19)	69(10) 11,171(18)	57,722
Administration & Medical Records	293,660	792(11) 2(11) 16,177(12) 22,178(17) 4,908(17)	6,660(8) 140(10) 133(10) 18,425(16) 15,067(18) 6,445(18) 3,875(19)	286,972
Utilities	76,345	12,546(17) 5,764(19)	3,097(3) 3,165(4) 3,195(5) 3,967(6) 1,115(14) 1,945(18)	78,171
Special Services	-	-	-	-
Medical Supplies & Oxygen	71,761	-	13,723(8) 2,707(9) 25,064(13) 2,035(18)	28,232

**FAITH HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	30,237	4,746(17) 11,016(19)	2,603(7) 5,216(18)	38,180
Legal Fees	-	-	-	-
Cost of Capital	190,573	1,216(1) <u>2,958(17)</u>	3,709(18) <u>5,643(20)</u>	185,395
Subtotal	2,286,815	269,868	340,500	2,216,183
Ancillary	27,454	-	-	27,454
Non-Allowable	542,774	2,301(3) 3,165(4) 47(5) 3,967(6) 26,824(8) 318(11) 25,064(13) 78,792(16) 131,527(18) <u>5,643(20)</u>	1,216(1) 50,686(15) 147,972(17) 14,286(19)	606,262
Total Operating Expenses	<u>\$2,857,043</u>	<u>\$547,516</u>	<u>\$554,660</u>	<u>\$2,849,899</u>
TOTAL PATIENT DAYS *	<u>36,821</u>	<u>-</u>	<u>-</u>	<u>36,821</u>
* Adjusted to 97% occupancy				
Total Beds	<u>104</u>			

**FAITH HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 22,100	
	Cost of Capital	1,216	
	Accumulated Depreciation		\$ 15,339
	Other Equity		6,761
	Nonallowable		1,216
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Housekeeping	24,791	
	Laundry		24,791
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
3	Accounts Payable	796	
	Nonallowable	2,301	
	Utilities		3,097
	To remove costs not related to patient care and properly charge expense applicable to subsequent period HIM-15-1, Sections 2102.3 and 2302.1		
4	Nonallowable	3,165	
	Utilities		3,165
	To adjust water expense to allowable HIM-15-1, Section 2304		
5	Prepaid Expense	3,148	
	Nonallowable	47	
	Utilities		3,195
	To remove duplicate posting of expense and disallow late charge HIM-15-1, Sections 2302.1 and 2304		

**FAITH HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Utilities	3,967	3,967
	To remove cost not related to patient care HIM-15-1, Section 2102.3		
7	Accrued Property Taxes Retained Earnings Taxes and Insurance	2,575 28	2,603
	To adjust property taxes and related accrual to allowable HIM-15-1, Sections 2302.1 and 2304		
8	Nonallowable Dietary Medical Records Medical Supplies	26,824	6,441 6,660 13,723
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
9	Retained Earnings Dietary Medical Supplies	2,984	277 2,707
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		

**FAITH HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Retained Earnings	7,681	
	Nursing		6,071
	Restorative		342
	Dietary		723
	Laundry		203
	Maintenance		69
	Administration		140
	Medical Records		133
	To properly charge salaries and related benefits applicable to the prior period HIM-15-1, Section 2302.1		
11	Nursing	6,755	
	Restorative	451	
	Dietary	915	
	Laundry	273	
	Housekeeping	411	
	Maintenance	151	
	Administration	792	
	Medical Records	2	
	Nonallowable	318	
	Accrued PTO		10,068
	To adjust PTO accrual to allowable HIM-15-1, Sections 2302.1 and 2304		
12	Medical Records	16,177	
	Restorative		16,177
	To reclassify medical records salaries and related benefits to the proper cost center HIM-15-1, Section 2304		
13	Nonallowable	25,064	
	Medical Supplies		25,064
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

**FAITH HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
14	Dietary Utilities	1,115	1,115
	To reclassify income offset to the proper cost center HIM-15-1, Sections 2102.3 and 2328		
15	Nursing Nonallowable	50,686	50,686
	To reverse provider allocation of costs applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3		
16	Nonallowable Nursing Administration	78,792	60,367 18,425
	To remove nursing and administrative costs applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3		
17	Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Utilities Taxes and Insurance Cost of Capital Nonallowable	12,238 52,641 13,666 12,574 9,517 22,178 4,908 12,546 4,746 2,958	147,972
	To reverse DH&HS adjustment to remove indirect costs applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

**FAITH HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
18	Nonallowable	131,527	
	Restorative		5,602
	Dietary		51,762
	Laundry		9,621
	Housekeeping		18,954
	Maintenance		11,171
	Administration		15,067
	Medical Records		6,445
	Utilities		1,945
	Taxes and Insurance		5,216
	Medical Supplies		2,035
	Cost of Capital		3,709
	To remove indirect costs applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
19	Maintenance	1,381	
	Utilities	5,764	
	Taxes and Insurance	11,016	
	Administration		3,875
	Nonallowable		14,286
	To adjust home office cost allocation to allowable HIM-15-1, Section 2304		
20	Nonallowable	5,643	
	Cost of Capital		5,643
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$586,828	\$586,828

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**FAITH HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>104</u>
Deemed Asset Value	3,325,192
Improvements Since 1981	126,912
Accumulated Depreciation at 9/30/95	<u>(623,732)</u>
Deemed Depreciated Value	2,828,372
Market Rate of Return	<u>.070</u>
Total Annual Return	197,986
Return Applicable to Non-Reimbursable Cost Centers	(31,901)
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	166,085
Depreciation Expense	23,019
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(3,709)</u>
Allowable Cost of Capital Expense	185,395
Total Patient Days (Minimum 97% Occupancy)	<u>36,821</u>
Cost of Capital Per Diem	\$ <u><u>5.04</u></u>



**FAITH HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1995  
AC# 3-FAI-J5

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$1.34
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.33</u>
Reimbursable Cost of Capital Per Diem	\$5.04
Cost of Capital Per Diem	<u>5.04</u>
Cost of Capital Per Diem Limitation	<u>\$ -</u>